

Lecture # 28 – The Political Economy of Environmental Policy

Thanks to everyone for a great discussion today on the role that economics plays in environmental policy. The notes below highlight some of the key points raised in today's discussion, as well as summarizing some of the important points from the reading. My apologies if I've forgotten anything.

I. What role does economics (and economists) play in environmental policy?

- Some of the roles that economics plays:
 - Providing a framework for analysis
 - Providing cost-benefit analysis to show policy effectiveness
 - Related to this is simply understanding the impact that *not* addressing environmental problems may have
 - Concern was raised, however, about how different methods provide different answers, leading to uncertainty for policy makers
 - Understanding the tradeoffs faced when protecting (or choosing not to protect) the environment
 - Thinking critically about what policy instruments work well and the limitations that each have
 - Thinking about both static and dynamic efficiency: “making space” for new technologies

II. What role should economics (and economists) play in environmental policy?

- Among the ideas raised here:
 - That money matters creates tension. Metrics such as GDP are important to both policy makers and the general public, but do not properly account for environmental impacts
 - Economics has evolved over time. Lessons from other fields, such as the influence of psychology on behavioral economics, is an improvement
 - It is important to think about *why* we want to protect the environment. Economics takes a very human-centric approach to managing the environment. What about other goals?

III. How does the political process affect policy design? Is rent-seeking a concern when more targeted policies (e.g. “green industrial policy”) are used to promote environmental objectives?

- Here, it is worth thinking about the political economy of the environmental policy process.
 - An important take-away from the readings is that the individual motives of each group are important.
 - Regulations can generate rents

- Firms will support regulations that offer new opportunities for them.
 - For example, firms that produce pollution control equipment benefit from technology-based standards that require their product.
 - Companies developing substitutes for HFC-23 support rules banning the chemical.
- Here we discussed concerns about policy volatility and short-run versus long-run goals. Constantly changing regulations make it hard to achieve long term goals and provide uncertainty for consumers and firms.
 - The reading on climate policy illustrates how starting small can build support for long-term goals.